Consolidation Helps Big Banks Reap Profits from Trust Area

Continued from *page* **9**

but the chance of reaching the top rung of global corporate and institutional trust providers is slim. The best chances for growth are at banks that are concentrating on personal trust and on regional markets, say industry observers.

"Are we going to compete with Bankers Trust?" asked Steven D. Poole, senior vice president at NCNB. "No, instead of calling on the Fortune 500, we will drop down to the corporate 2,000."

"We see more interest [in trust] on the part of banks, but the top-tier competitors remain the same," said Mr. Sutfin of Northern Trust. The Chicago institution gets 55% of total revenues from fees, and 90% of the fees stem from its trust business. Discretionary assets rose 32% at Northern Trust in 1989.

Other major trust banks such as State Street Boston Corp., which increased assets 44% last year, and Wells Fargo, which was No. 3 on the asset list, derive most if not all of their trust income from corporate and institutional customers.

Technology Commitment

Entering and staying in the elite requires a major commitment to technology and personnel. Some trust banks are committing upward of $40 million to build new computer systems. Mellon, for example, is investing $30 million to upgrade its systems. NCNB executives have committed $22 million to build a new trust system.

Some trust banks are committing upward of $40 million for new computer systems.

A study by the consulting company Greenwich Associates found that new business is tough to come by. More than 80% of corporate pension funds use a master trust, and seven of eight winners of master trust accounts were replacing previous master trustees. In a such a mature market, banks are cutting prices to attract business from competitors.

Some banks see growth opportunity in defined contribution plans such as the 401(k), in which employers and employees contribute to open-ended accounts. According to the Employee Benefit Research Institute in Washington, defined contribution funds totaled $460 billion last year. In 1982, these were 32% of all pension funds. In 1989, they grew to 38%.

Some bankers see the personal trust business as another likely source of growth.

"The opportunities for growth through fee increases are nonexistent on the institutional side," said Mr. Boyles of Mellon. "But there are still opportunities for banks on the personal side."

In trust departments, where past efforts to garner new business largely consisted of reading obituaries, recruiting personal trust clients is now a top priority.

Bankers say that more people are wealthier at a younger age now, creating demand for investment management and a more sophisticated array of investment products. In trust departments, where past efforts to garner new business largely consisted of reading obituaries, recruiting personal trust clients is now a top priority.

Banks have hired more professional investment managers to compete with investment advisers, Wall Street companies, and insurance companies.

Focus on Personal Trust

Even the major corporate trust banks are looking to attract more personal trust customers.

"Personal trust is now more of a focus for us," said Mr. Sutfin. Northern Trust opened offices in California and Florida to pursue personal accounts.

How do banks perform as investment managers? A recent study by CDA Investment Technologies Inc. for the American Bankers Association showed that investment managers at banks outperformed their nonbanking competition in some measures of return on equity and fixed-income investments.

Over a three-year period, banks had a 16.1% annualized rate of return on equities, slightly ahead of investment advisers at 16.0%, insurance companies at 15.9%, and mutual funds at 13.8%. Over a five-year period, insurance companies and investment advisers did better than banks.

In the fixed-income arena over three years, insurance companies led the field, with an 8.2% annual return. Banks had a 7.7% return, and mutual funds 5.9%. □

Thrift in Houston Taps George Bender

NEW YORK — George R. Bender, formerly chief executive officer of Centrust Bank's mortgage unit, has been tapped to head the mortgage operations of United Savings Association of the Southwest, Houston.

That thrift, led by mortgage-securities pioneer Lewis S. Ranieri, has been expanding rapidly in the home-loan field.

Last week, it completed purchasing the 15-state origination network of Commonwealth Mortgage of America L.P.

Mr. Bender's previous company was Centrust Mortgage Corp., Deerfield Beach, Fla. The parent thrift, which is based in Miami, was seized by the federal government in February. □

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TRUST BANKING

Top 100 Firms in Trust Income

Banks and non-deposit trust companies ranked in order of 1989 gross operating trust revenues

Rank 1989		Total Trust Income 1989	Total Trust Income 1988	Rank 1988	Gain in Rank	Total Operating Income 1989	Trust Income As % of Oper. Income	1989 Market Value Of Trust Assets
1	Citicorp, New York (M)	477,153,000	450,285,000	2	+1	37,970,000,000	1.3	356,692,919,000
2	J.P. Morgan & Co., Inc., New York (M)	446,000,000	453,300,000	1		10,394,000,000	4.3	537,410,140,000
3	Bankers Trust New York Corp. (M)	380,621,000	321,542,000	4	+1	7,258,233,000	5.2	1,521,000,000,000
4	Chase Manhattan Corp., New York (M)	376,000,000	358,819,000	3		13,904,000,000	2.7	236,556,000,000
5	Bank of New York Co., Inc. (M,a)	359,882,000	263,285,000	6	+1	5,496,747,000	6.5	436,862,956,000
6	State Street Boston Corp. (O)	336,277,000	292,800,000	5		1,091,968,000	30.8	801,564,545,000
7	Mellon Bank Corp., Pittsburgh (M)	280,000,000	261,000,000	7		3,607,000,000	7.8	246,354,000,000
8	Northern Trust Corp., Chicago (M)	237,200,000	206,800,000	8		1,229,800,000	19.3	242,936,285,000
9	Chemical Banking Corp., New York (M)	207,500,000	182,900,000	9		8,227,100,000	2.5	215,928,465,000
10	PNC Financial Corp., Pittsburgh (M)	196,883,000	173,313,000	10		4,645,078,000	4.2	92,875,868,000
11	Wells Fargo & Co., San Francisco (O)	190,400,000	153,700,000	13	+2	5,648,900,000	3.4	99,023,738,000
12	Security Pacific Corp., Los Angeles (M)	185,900,000	153,800,000	12		10,018,400,000	1.9	248,706,758,000
13	U.S. Trust Corp., New York (O)	177,026,000	155,189,000	11		397,520,000	44.5	143,691,475,000
14	NCNB Corp., Charlotte, N.C. (M,b)	169,405,000	60,652,000	36	+ 22	6,152,446,000	2.8	65,300,000,000
15	First Chicago Corp. (M)	162,800,000	126,500,000	18	+3	5,611,300,000	2.9	113,868,000,000
16	SunTrust Banks, Inc., Atlanta (M)	156,374,000	134,656,000	17	+1	3,295,802,000	4.7	39,369,190,000
17	Bank of Boston Corp. (M)	153,667,000	140,290,000	16		6,844,025,000	2.2	77,000,000,000
18	Manufacturers Hanover Corp., New York (M)	150,000,000	149,000,000	14		8,420,000,000	1.8	66,875,600,000
19	First Interstate Bancorp., Los Angeles (M)	149,777,000	143,910,000	15		6,534,582,000	2.3	99,350,407,000
20	Bank of New England Corp., Boston (M)	121,149,000	119,192,000	19		3,478,184,000	3.5	66,179,818,000
21	Harris Bankcorp., Inc., Chicago (M)	108,971,000	100,842,000	20		1,337,836,000	8.1	90,132,574,000
22	Shawmut National Corp., Hartford, Conn. (M)	105,216,000	97,386,000	21		3,020,420,000	3.5	27,947,902,714
23	Boatmen's Bancshares Inc., St. Louis, Mo. (M)	94,420,000	80,078,000	24	+1	1,476,302,000	6.4	42,648,680,000
24	First Bank System, Minneapolis (M)	91,300,000	84,900,000	23		2,500,200,000	3.7	75,794,912,000
25	National City Corp., Cleveland (M)	84,531,000	78,484,000	25		2,539,780,000	3.3	45,816,136,000
26	First Wachovia Corp., Winston-Salem, N.C. (M)	84,232,000	72,921,000	28	+2	2,433,372,000	3.5	58,085,106,000
27	Banc One Corp., Columbus, Ohio (M)	80,247,000	74,719,000	26		3,162,982,000	2.5	55,378,647,000
28	NBD Bancorp., Inc., Detroit (M)	79,054,000	70,379,000	30	+2	2,541,859,000	3.1	64,114,331,000
29	First Fidelity Bancorporation, Lawrenceville, N.J. (M)	77,624,000	73,508,000	27		3,104,163,000	2.5	68,900,000,000
30	Ameritrust Corp., Cleveland (M,c)	74,000,000	68,963,000	31	+1	1,226,000,000	6.0	31,300,000,000
31	Norwest Corp., Minneapolis (M)	73,000,000	65,900,000	33	+2	2,929,900,000	2.5	39,227,200,000
32	Boston Safe Deposit & Trust Co. (B)	72,371,000	60,658,000	35	+3	1,336,225,000	5.4	215,789,704,000
33	Continental Bank Corp., Chicago (O)	71,600,000	68,900,000	32		3,202,600,000	2.2	103,287,363,000
34	Fleet/Norstar Financial Group, Inc., Providence, R.I. (M)	70,474,000	63,191,000	34		3,657,877,000	1.9	17,070,530,000
35	BankAmerica Corp., San Francisco (M)	67,646,000	70,986,000	29		11,389,000,000	0.6	37,992,491,000
36	Capital Guardian Trust Co., Los Angeles (T)	66,334,000	52,174,000	40	+4	68,803,000	96.4	30,690,377,000
37	First Union Corp., Charlotte, N.C. (M,d)	64,635,000	60,486,000	37		3,313,247,000	2.0	14,060,396,000
38	MCorp, Dallas (M,e)	60,431,916	52,538,943	39		61,286,824	98.6	16,160,061,632
39	Sovran Financial Corp., Norfolk, Va. (M)	60,208,000	54,372,000	38		2,651,198,000	2.3	35,264,563,000
40	Fiduciary Trust International, New York (B)	59,568,000	50,884,029	41		71,661,000	83.1	47,809,147,000
41	Citizens & Southern Corp., Atlanta (M)	57,664,185	50,474,866	42		67,531,105	85.4	38,383,429,000
42	Firstar Corp., Milwaukee (M)	55,035,000	49,350,000	44	+2	923,377,000	6.0	27,580,340,000
43	Fidelity Management Trust Co., Boston (T)	53,915,000	.....	...		58,397,000	92.3	N.A.
44	Wilmington Trust Co., Del. (B)	53,373,000	50,209,000	43		378,761,000	14.1	105,618,300,000
45	Bessemer Group, Inc., Woodbridge, N.J. (M,f)	52,480,000	.....	...		71,602,000	73.3	8,897,009,000
46	BanCal Tri-State Corp., San Francisco (O)	51,498,000	38,409,000	49	+3	811,056,000	6.3	23,076,738,000
47	Manufacturers National Corp., Detroit (M)	50,121,000	44,119,000	45		1,099,122,000	4.6	41,575,824,000
48	Midlantic Corp., Edison, N.J. (M)	47,765,000	38,411,000	48		2,319,577,000	2.1	14,951,807,000
49	Marine Midland Banks, Inc., Buffalo, N.Y. (M)	44,803,000	41,575,000	46		3,168,228,000	1.4	53,775,039,000
50	MNC Financial, Inc., Baltimore (M,g,h)	43,076,000	38,087,000	50		2,416,790,000	1.8	19,928,000,000
51	CoreStates Financial Corp., Philadelphia (M,i)	43,075,000	36,303,000	55	+4	1,888,416,000	2.3	72,584,201,000
52	First of America Bank Corp., Kalamazoo, Mich. (M)	41,573,000	25,984,000	67	+15	1,305,545,000	3.2	8,766,019,000
53	Comerica Inc., Detroit (M)	40,846,000	39,046,000	47		1,250,381,000	3.3	10,420,713,000
54	Crestar Financial Corp., Richmond (M)	40,695,000	37,153,000	51		1,177,200,000	3.5	23,062,281,000
55	Society Corp., Cleveland (M,j)	38,835,000	35,281,000	57	+2	1,148,567,000	3.4	9,185,242,000
56	First Pennsylvania Corp., Philadelphia (O,i)	38,396,000	36,412,000	53		707,771,000	5.4	60,315,213,000
57	Barnett Banks, Inc., Jacksonville, Fla. (M)	38,153,299	36,640,000	52		3,037,581,000	1.3	6,563,211,000
58	Marshall & Ilsley Corp., Milwaukee (M)	37,938,000	36,320,000	54		782,708,000	4.8	10,718,417,000
59	First City Bancorporation of Texas, Inc., Houston (M)	35,677,000	32,721,000	60	+1	1,458,247,000	2.4	16,714,526,000
60	U.S. Bancorp., Portland, Ore. (M)	35,143,000	35,317,000	56		1,672,033,000	2.1	7,811,862,000
61	Mercantile Bancorp., Inc., St. Louis, Mo. (M)	34,233,000	31,334,000	61		745,133,000	4.6	10,958,324,000
62	Old Kent Financial Corp., Grand Rapids, Mich. (M)	34,113,000	29,793,000†	63‡	+1	863,076,000	4.0	15,172,353,000
63	Trust Services of America, Inc., Los Angeles (T)	33,333,000	32,792,000	59		35,237,000	94.6	10,430,000,000
64	Mercantile Bankshares Corp., Baltimore (M)	31,842,000	29,132,000	63		432,861,000	7.4	21,027,455,000
65	Fifth Third Bancorp., Cincinnati (M)	31,599,000	22,271,000	72	+7	768,295,000	4.1	17,438,000,000
66	Union Bank, San Francisco (B)	31,106,000	16,880,000	84	+ 18	1,650,241,000	1.9	8,815,144,000
67	Southeast Banking Corp., Miami (M)	29,685,000	27,720,000	64		1,706,394,000	1.7	7,508,000,000
68	KeyCorp, Albany, N.Y. (M)	29,156,000	27,174,000	65		1,662,443,000	1.8	9,230,992,000
69	United Missouri Bancshares Inc., Kansas City (M)	28,750,000	22,725,000	71	+2	384,942,000	7.5	87,056,878,000
70	United Banks of Colorado, Denver (M)	27,435,000	27,117,000	66		625,694,000	4.4	8,181,601,000
71	AmSouth Bancorp., Birmingham, Ala. (M)	27,310,000	30,057,000	62		889,785,000	3.1	10,395,064,000
72	La Salle National Corp., Chicago (M)	27,088,000	22,845,000	70		164,409,000	16.5	7,983,759,000
73	Star Banc Corp., Cincinnati (M)	26,510,000	21,544,000	75	+2	636,082,000	4.2	9,740,697,000
74	Meridian Bancorp, Inc., Reading, Pa. (M)	26,411,000	24,080,000	69		1,172,816,000	2.3	15,326,000,000
75	Valley National Corp., Phoenix, Ariz. (M)	26,160,000	25,055,000	68		1,201,298,000	2.2	5,029,101,000
76	Bancorp Hawaii, Inc., Honolulu (M)	23,940,000	19,914,000	78	+2	761,536,000	3.1	6,811,370,000
77	Integra Financial Corp., Pittsburgh(M)	23,485,000	21,685,000•	75•		727,643,000	3.2	5,057,546,000
78	Huntington Bancshares Inc., Columbus, Ohio (M)	22,870,000	21,192,000	76		1,159,656,000	2.0	10,511,140,000
79	Trustcorp, Inc., Toledo, Ohio (M,j)	22,379,000	22,085,000	73		611,018,000	3.7	N.A.
80	Bank of Tokyo Trust Co., New York (B)	22,077,991	22,078,000	74		534,871,989	4.1	42,800,722,000
81	INB Financial Corp., Indianapolis (M)	21,380,000	19,428,000	79		644,610,000	3.3	20,070,595,000
82	Riggs National Corp., Washington, D.C. (M)	19,574,000	17,543,000	83	+1	694,821,000	2.8	25,789,502,000
83	Florida National Banks of Florida, Jacksonville (M,d)	19,566,000	18,161,000	82		781,409,000	2.5	3,637,371,000
84	South Carolina National Corp., Columbia (O)	16,840,000	15,038,000	86	+2	658,723,000	2.6	3,851,771,000
85	IBJ Schroder Bank & Trust Co., New York (B)	16,397,000	14,946,000	87	+2	389,839,000	4.2	1,185,693,000
86	Cullen/Frost Bankers Inc., San Antonio (M)	16,211,000	13,912,000	93	+7	349,846,000	4.6	8,010,194,671
87	First American Bankshares, Washington, D.C. (M)	15,895,000	13,967,600	92	+5	1,126,678,000	1.4	4,790,242,000
88	Sanwa Bank California, San Francisco (B)	15,797,000	14,926,000	88		718,096,000	2.2	N.A.
89	Glenmede Trust Co., Philadelphia (T)	15,730,488	9,592,640	114	+ 25	17,464,593	90.1	5,700,000,000
90	Commerce Bancshares Inc., Kansas City, Mo. (M)	15,691,000	14,872,000	89		568,056,000	2.8	6,694,366,000
91	National Westminster Bancorp, Inc., New York (M)	14,971,000	13,837,000	94	+3	2,201,293,000	0.7	69,426,084,000
92	Firstier Inc., Omaha, Neb. (O)	14,791,000	15,797,000	85		256,720,000	5.8	7,058,164,000
93	Northeast Bancorp, Inc., New Haven, Conn. (M)	14,281,000	11,716,000	103	+10	378,449,000	3.8	3,191,222,000
94	First American Corp., Nashville, Tenn. (M)	14,155,000	12,703,000	98	+4	750,603,000	1.9	3,418,000,000
95	Merchants National Corp., Indianapolis (M)	14,083,000	12,808,000	96	+1	539,250,000	2.6	5,022,388,000
96	First Tennessee National Corp., Memphis(M)	13,641,628	12,731,847	97	+1	708,922,000	1.9	8,587,362,000
97	Banks of Mid-America, Inc., Oklahoma City (M)	13,507,000	12,859,000	95		207,423,000	6.5	3,737,229,000
98	BayBanks, Inc., Boston (M)	13,330,000	12,551,000	99	+1	1,097,435,000	1.2	2,887,634,000
99	Signet Banking Corp., Richmond (M)	13,215,000	14,831,600	90		1,399,493,000	0.9	7,949,525,000
100	UJB Financial Corp., Princeton, N.J. (M)	12,944,000	11,923,000	102	+2	1,224,424,000	1.1	5,958,000,000
	TOTALS FOR THE TOP 100 FIRMS‡	**8,231.4**	**$7,321.5 Mil.†**	**+12.4%**				

Data Sources: American Banker survey; annual reports; Federal Reserve Board Y-9 data for bank holding companies; and the federal regulatory report of income for banks. **Gross operating income** of the trust department includes income from all types of fiduciary services but excludes all non-operating credits. **Market value of all trust assets** includes discretionary assets, nondiscretionary assets, and accounts of a strictly custodial nature. Corporate trust accounts are excluded. **(a)**— The 1988 data include Irving Bancorp. for the month of December only. **(b)**— The 1989 data include NCNB Texas National Bank, and the 1988 data do not. NCNB Texas— which became a subsidiary of the NCNB Corp. in Aug. 1989— ranked 22d in 1988 with $93 million in trust income. **(c)**— The 1989 data do not include MVestment Corp., which was acquired from MCorp. MVestment Corp.— now called Ameritrust Texas— had $60.4 million in trust income in 1989, ranking MCorp 38th in this year's listing. Had the consolidation taken place at yearend, Ameritrust would have ranked 20th with $134.4 million in trust income. **(d)**— On Jan. 29, First Union Corp. acquired Florida National Banks. Had merger taken place on Dec. 31, First Union would rank 27th with $84.2 million in trust income. **(e)**— Data are for MVestment Corp. **(f)**— Became a holding company in 1989. In 1988, data for two group members were reported: Bessemer Trust Co. NA, New York ranked 58th with $33 million in income and Bessemer Trust Co., Woodbridge, N.J., ranked 80th with $18.5 million. **(g)**— All trust activities are performed by Security Trust Co. NA, Washington, D.C. **(h)**— MNC acquired Equitable Bancorp., Baltimore, on Jan. 18. Had the merger taken place at yearend, MNC would have ranked 46th with $51.6 million in income. **(i)**— On March 5, CoreStates acquired First Pennsylvania Corp. Had the merger taken place at yearend, CoreStates would have ranked 28th with $81.5 million in income. **(j)**— Society Corp. acquired Trustcorp on Jan. 5. Had the merger taken place at yearend, Society would have ranked 38th with $61.2 million in income. **(†)**— Revised since publication on 6/27/89. **(‡)**— Rank bank would have had, if revised data had been received earlier. **(•)**— Data and rank are pro forma. Company was formed 1/30/89. **(')**— The 1988 total is for the top 100 firms that year. **(')**— The 1988 total is for the top 100 firms that year. **(B)**— Bank not contolled by a U.S. bank holding company. **(M)**— A multibank holding company. **(O)**— A one-bank holding company. **(T)**— Trust company not contolled by a U.S. bank holding company.

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NEWSPAPER 155389000015 2/ 5/07 C11
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VOL. CLV NO. 144 Wednesday, July 25, 1990 155th year

Health of FDIC Being Exposed To the Spotlight

By BILL ATKINSON

As barometers of the political mood, the Sunday morning television interview programs have latched onto banking industry issues with a vengeance.

The programs have turned a spotlight on the savings and loan crisis and the impact of declining real estate markets, both tarnishing the image of bankers.

But now the interview shows – and the media in general – are confronting what could be the most damaging issue of all: the health of the Federal Deposit Insurance Corp.

Whereas the thrift debacle affected only one segment of the financial industry, and real estate problems have been viewed as regional, the FDIC insures virtually every depository institution in the country.

ANALYSIS: *Follow-up on the news*

Washington lawmakers, among others, are beginning to wonder if the crisis that led to the demise of the Federal Savings and Loan Insurance Corp. may repeat itself in the FDIC's much bigger commercial bank fund.

Two Kinds of Worry

Bankers worry that they may be assessed higher premiums to replenish the bank insurance fund, but consumers may feel a very different kind of alarm about the safety of their deposits.

On July 15, at least four major news programs discussed banking and thrift-related issues, with the FDIC question moving to the forefront.

FDIC Chairman L. William Seidman made comments that members of the general public might have found most startling. He acknowledged that the $13 billion fund that insures deposits at more than 13,000 commercial banks is under "considerable stress" and could be hurt in the event of a long recession.

Worst-Case Scenario

Several days before Mr. Seidman made his appearance on CBS News' "Face The Nation," a senior FDIC official said before a group of savings and loan executives that the bank insurance fund could lose as much as $2 billion in a worst-case scenario. And last Wednesday, Mr. Seidman returned to an NBC morning news program to say, "If we had a long and deep recession, [the bank insurance] fund might not be able to handle it."

Industry observers say that in the wake of bad loans to developing countries, in real estate,

See **HEALTH** *page* **15**

INSIDE NEWS

FINANCE

INSIDERS at Valley National Corp. apparently believe the sun is about to shine again on the Phoenix bank. Top officials there spent $700,000 to buy a large number of its shares in recent months, coinciding with a rise in the company's stock price. *Page 24*

CONSUMER

ANOTHER BATTLE over insurance powers for commercial banks is shaping up – this time in Pennsylvania. *Page 8*

INTERNATIONAL

BANK OF IRELAND said Tuesday it planned to start a new bank in Boston in an effort to expand its franchise in New England. *Page 14*

TECHNOLOGY

SWIFT-2, a long-delayed upgrade to the international interbank messaging system, has users reporting improved service and some early cost savings. *Page 3*

WASHINGTON

THE WHITE HOUSE supports increased penalties for financial institution crimes, including the life sentence that a Senate bill would impose for the most serious offenses by so-called savings and loan kingpins, Attorney General Dick Thornburgh said. *Page 2*

COMMENT

LEGISLATION is needed to give lenders protection from unfair liability under the Superfund law, write Alfred Pollard and Thomas Greco. *Page 4*

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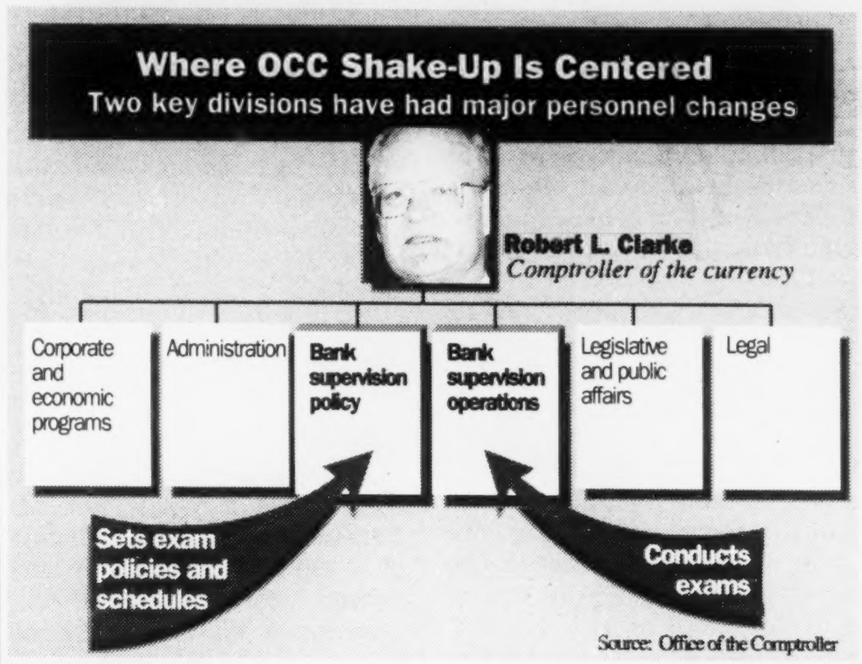


Doubts, Pressure, Shake-Up Lead To Brain Drain from Comptroller

By BILL ATKINSON

WASHINGTON — The Office of the Comptroller of the Currency tossed the banking industry on its ear this year with a series of tough real estate exams. But meanwhile, the agency has been undergoing a shake-up of its own.

Since last fall, four senior staff members have left the regulatory unit, and a fifth plans to leave. Meanwhile, four other top regulators have been reassigned to lesser posts.

Key Divisions Affected

The changes have all occurred in the agency's two key divisions: bank supervision policy, which sets exam policies and schedules, and bank supervision operations, which conducts the exams.

The brain drain seems to have resulted from low morale among senior staff members who felt their recommendations were ignored and from recent reorganization that has unsettled employees.

Whatever the reasons, the changes, coming when the agency is being criticized for overzealous examinations, have raised questions about its stability and its capacity to do its job in particularly troubled times.

Chief's Tenure in Doubt

Further clouding the picture is the fact that Robert L. Clarke's five-year term as comptroller ends in December and his reap-

See **DOUBTS** *page* **16**

Financial Firms Set To Bid on RTC Assets

By DEBRA COPE

WASHINGTON — Several major financial institutions are preparing bids for $500 million blocks of assets held by the Resolution Trust Corp., sources said Tuesday.

The expected bidders include Shearson Lehman Hutton Inc., Merrill Lynch & Co., Goldman, Sachs & Co., the Federal National Mortgage Association, the J.E. Robert Companies, an investment group led by former Treasury secretary William Simon, and NCNB Corp.

They are said to be seeking the sour loans and other government-seized assets for their own accounts or for resale in the form of securitized or whole-loan packages.

Moving Assets to Private Sector

The bulk transactions have been designed by the RTC to move assets faster off its books and into the private sector. The first three bulk asset packages will be assembled for bidding in late November and the sales closed in early 1991.

Under a plan outlined by RTC staff members Tuesday at an open board meeting, the

See **FINANCIAL** *page* **11**

Private Market Placements Up, Participants Say

By WILLIAM GOODWIN

Despite earlier predictions of a sharp dropoff in private-placement volume, activity has picked up considerably in the past month, according to market participants.

They cite a combination of factors, including the so-called credit crunch, a dip in interest rates, and the demise of the public high-yield bond market.

"We've seen a lot of increased activity from companies that are nervous about banks pulling their [short-term credit] lines," said Maleyne Syracuse, vice president in charge of private placements at Bankers Trust New York Corp.

In addition, a number of highly leveraged transactions are now being refinanced in the private-placement market.

"That has definitely helped pick up" the market, said Robert Szymczak, manager of data

See **MARKET** *page* **22**

Greenspan Vows Fed Is Continuing Inflation Fight Despite Cut in Rates

By LINDA CORMAN

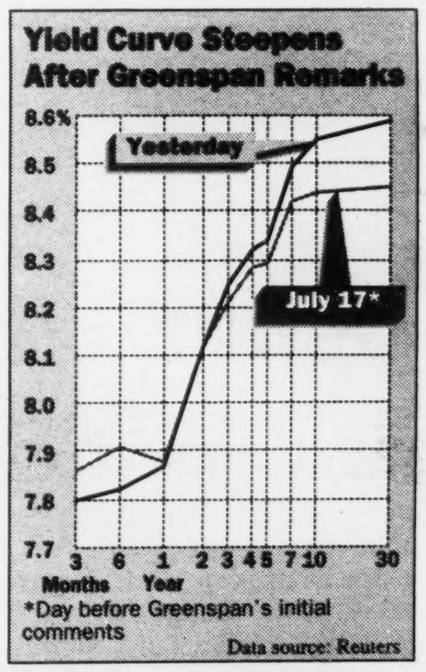
WASHINGTON — In an effort to convince skeptical markets that he had not give up the fight against inflation, Federal Reserve Board Chairman Alan Greenspan on Tuesday reiterated that the July 13 easing of short-term interest rates was forced by recent signs of overly restrictive lending practices by banks.

"We have not done anything to alter our policy path," Mr. Greenspan told a House Banking subcommittee. It was his second congressional appearance in successive weeks to present his semiannual report on monetary policy targets.

Further Cuts Called Unlikely

In testimony last week to the Senate Banking Committee, Mr. Greenspan said further interest rate cuts were unlikely unless necessary to counteract excessively tight bank credit. (For excerpts from that testimony, see page 5.)

Analysts said the Fed chair-



man's remarks on Tuesday were meant to lessen confusion and address credibility problems in the financial markets since the Fed dropped the federal funds rate from 8.25% to 8.0%. Fed watchers, citing a lack of economic data to justify a lowering of rates at that time, suggested

See **GREENSPAN** *page* **9**

COMMENT / *By Alfred Pollard and Thomas Greco*

Congress Must Correct Superfund Law

"No showing of fault is required, and one person may be made to pay for the entire cleanup even if there were other responsible parties involved."

The Comprehensive Environmental Response, Compensation, and Liability Act, commonly known as Superfund, was enacted in 1980 in the wake of several well-publicized discoveries of hazardous waste sites, such as the Love Canal area in New York and the Hooker Chemical facility in Montague, Mich.

The law was designed as a comprehensive scheme for addressing environmental hazards. In addition to creating a means to promptly and effectively respond to the release of hazardous substances, Congress developed an elaborate framework of liability that imposes cleanup costs on those parties responsible for causing the contamination.

Superfund, as applied by the courts, imposes strict joint and several liability for the costs of responding to a release or threatened release of hazardous substances and for the harm to natural resources caused by such release [42 USC 9607(a)].

Mr. Pollard is senior vice president of Security Pacific Corp. in Washington, D.C., and Mr. Greco is associate general counsel for the American Bankers Association, Washington. Charles Lettow of Cleary, Gottlieb, Steen & Hamilton also contributed to this article.

No showing of fault is required, and one person may be made to pay for the entire cleanup even if there were other responsible parties involved. The latter concept has the effect of forcing a single responsible party to attempt to recover from others who were also involved.

Liability Under Superfund

Liability is based on three elements:

- A release has occurred or is threatened.
- Response costs were incurred (that is, costs to investigate, remove, or otherwise deal with the hazardous substances).
- The person involved falls into one or more of four categories of responsible parties outlined in the law (specifically, a current owner or operator of a facility; a former owner or operator of a facility at the time of disposal of a hazardous substance; a person who arranges for transport, treatment, or disposal of hazardous substances; or the transporter of hazardous substances).

Defenses Under Superfund

The Superfund law specifies three limited defenses to liability:

Under 42 USC 9607 (b)(3), a person is relieved from liability if a discharge was caused by an act of God, an act of war, or "an act or omission of a third party." For the third party defense to apply, the "third party" cannot be an "employee or agent of the defendant" or someone whose act or omission occurs in connection with a contractual arrangement.

Under the Superfund Amendments and Reauthorization Act of 1986, a contractual relationship is defined in 42 USC 9601 (35)(A)to include "land contracts, deeds, or other instruments transferring title or possession."

When a land contract is involved, however, a defendant is entitled to assert an "innocent landowner" defense in certain narrowly drawn circumstances.

To prevail, a defendant must establish two elements:

- That the property was acquired after the hazardous substance was placed there and at "the time the defendant acquired the facility the defendant did not know and had no reason to know that any hazardous substance which is the subject of the release . . . was disposed of on, in, or at the facility."
- That at the time of acquisition of the property, the defendant had undertaken "all appropriate inquiry into the previous ownership and use of the property consistent with good commercial or customary practice in an effort to minimize liability." See 42 USC 9601 (35)(B).

To establish whether the owner undertook "all appropriate inquiry," the law requires courts to "take into account any specialized knowledge or experience on the part of the defendant, the relationship of the purchase price to the value of the property if uncontaminated, commonly known or reasonably ascertainable information about the property, the obviousness of the presence or likely presence of contamination at the property, and the ability to detect such contamination by appropriate inspection."

The law also provides that an owner who "by any act or omission caused or contributed to the

See **SUPERFUND** *page* **18**

GRAPEVINE / *By Jed Horowitz*

Citi Compensates. Although Citicorp did not mention the word "bonuses" last week in describing its reconfigured investment and commercial banking sector, some insiders expect to be compensated according to new criteria.

"Intangibles such as better customer morale and increased market share didn't used to count because everything was calculated by profit-center earnings," one banker said. "Bonusable events now seem to include other longer-term things. This is something that [chairman John] Reed has been saying a lot internally."

Citicorp hinted as much by saying it will no longer calculate profit-center earnings for each of its 50-odd businesses in the sector. Instead it will emphasize performance measures that stress revenues, market share, and "tier position" – customers' evaluation of Citicorp as their first, second, or third-choice bank. In the past, tier position was calculated for issuers but not for investors.

* * *

CRA Relief Fees. A satellite industry is emerging to help banks cope with their Community Reinvestment Act obligations. The latest manifestation: A Virginia company that plans to offer guarantees on certain loans to borrowers in poor communities.

"Banks have not been able to fulfill the new requirements because they usually require substandard loans," said Lee Fishman, president of Allstate Financial Corp., a NASDAQ-listed company with a net worth of $8 million that specializes in

DAVID ROCKEFELLER will hold Chase's international meeting in New York.

factoring and financing of "nonbankable" young companies.

Allstate, which is not related to the insurance giant, expects to charge a fee of 5% to 10% of the loan it agrees to guarantee. It will also monitor the borrower's collateral for a service fee of about 1.5% of the value of the borrower's receivables.

Mr. Fishman, who said he became aware of banks' CRA quandaries as a board member of Megabank in Miami, expects to sell his first guarantee within a week to a bank in the Washington area. He said he is talking with Crestar, Riggs National Bank, and Maryland National Bank, among others. Allstate, which owns Receivable Financing Corp. in New York, has a 3A-2 Dunn & Bradstreet rating, the third highest for a firm its size, Mr. Fishman said.

* * *

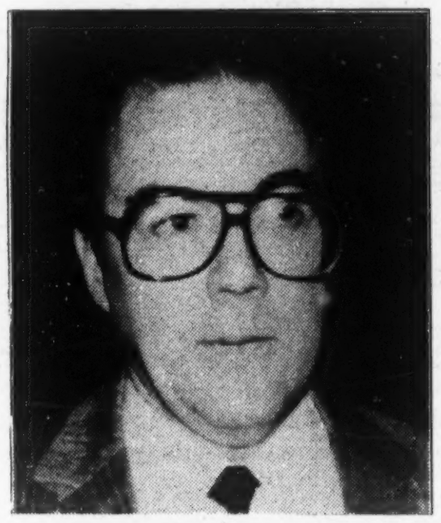
At Home Abroad with Chase. Chase Manhattan Corp. signaled its new emphasis on thrift last week when it said that its international advisory committee – chaired by David Rockefeller and "counseled" by Henry Kissinger – would meet in New York rather than overseas. (*The New York Times*, which broke the story, did not say how much the bank expects to save by flying in and housing, in low-priced Manhattan, the committee's far-flung members from 17 nations.)

Chase chairman Willard Butcher was battered at the bank's annual meeting by an investor who wanted to know why the bank had flown its 22 directors and their spouses for a meeting in Italy and Germany last year. Mr. Butcher, who said the trip cost over $1 million, justified it as a way to educate the board about Chase's plans for expansion in Europe after the 1992 economic unification. Chase has since drastically cut those plans.

* * *

The Citi Lineup. In attempting to eliminate the bureaucratic structure of its global finance sector, Citicorp is harking back to the old division between investment and commercial bankers. The new lineup of eight executives aiding sector head Michael Callen is being divided into customer men who sell to investors (investment banking/capital markets/distribution) and issuer men. They ostensibly have no administrative responsibilities, such as hiring, but will cultivate specialties such as cost cutting.

Ernst Brutsche, who chairs the sector's foreign exchange and derivative products committee, is focusing on selling to investors in Europe. Jeffrey Grandy oversees European issuer services, such as origination, M&A, high-yield advisory, venture capital, and leveraged deals.



MICHAEL CALLEN leads eight executives at Citicorp.

Phillip Lassiter picks up the investor mandate in North America, while Michael Welch oversees North American corporate borrowers. Todd Slotkin is responsible for specialized finance and advisory activities in the Untied States and Canada.

Responsibilities for capital market activities and sales of securitized products – considered customer activities – go to Rodney Ballek in North America and Peter Burnim in Europe. □

Reader Forum

The *American Banker* welcomes points of view on issues of interest and importance to the banking industry.

Please direct them to Jeffrey Kutler, assistant managing editor, *American Banker*, One State Street Plaza, New York, N.Y. 10004. Letters may be edited for space.

AMERICAN BANKER

Established 1836
One State Street Plaza, New York, N.Y. 10004
212-943-6700

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Second Class Postage Paid at New York, N.Y., and at additional mailing offices in U.S.A.
(ISSN No. 0002-7561)
Postmaster: Send address changes to American Banker, One State Street Plaza, New York, N.Y. 10004
Subscription Rates: U.S. $635 a year, Canada $815. Canada Airmail and Foreign $1,120. Single copy $5.75
Telecopier: 212-943-2984

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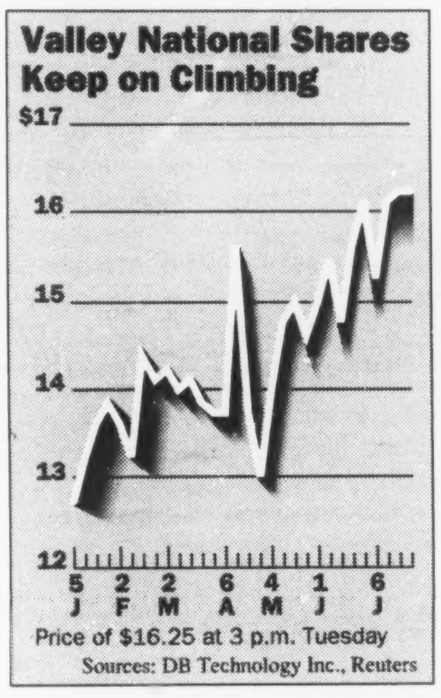
STOCKS

Insiders Show Confidence in Valley National

By GORDON MATTHEWS

NEW YORK — Insiders at Valley National Corp. apparently believe the sun is about to shine again on the Phoenix banking company. Top officials at the bank spent $700,000 to buy a large number of its shares in recent months, coinciding with a rise in the company's stock price.

Valley National's profitability has been impaired over the past two years by the severe downturn in the Arizona real estate market, which began earlier than the difficulties in other areas of the country.



Analysts are divided on whether a recovery has begun in the area, but the price of Valley's shares has clearly been on the rise since directors began acquiring additional stock last spring.

Action in Brief Period

According to Invest/Net Group Inc., which that tracks such activity, seven directors of Valley accumulated 50,000 shares at an average cost of $14 between April 20 and May 2.

At midday on Tuesday, Valley's shares traded at $16.25, up 75 cents on the day and 26.5% ahead of its yearend level.

The largest insider buyer was Robert F.B. Logan, Valley's president, who acquired 25,000 shares. Richard Lehmann, its chairman and chief executive officer, bought 4,000 shares.

Stake Had Been Small

The insider buying has helped adjust a situation that analysts considered a negative: a minimal stake in the company by its senior managers and directors.

Valley's 1990 proxy statement, dated March 15, listed Mr. Lehmann as owner of just 584 shares and Mr. Logan, its president, just 400 shares.

Insiders are differently motivated than other investors, noted Frank W. Anderson, a banking analyst at Stephens Inc., Little Rock, Ark. Tied to the fortunes of a company, they tend to be longer-term oriented, "but we are in a very short-term market right now," he said.

While the first two quarters this year were much improved at Valley, "I think it's still too early to be an aggressive buyer," said Mr. Anderson.

More optimistic is Thomas K. Brown, who thinks Valley is undervalued but acknowledges he is in the minority.

Takeover speculation has also boost the stock. On June 4, its shares stirred to life on takeover speculation after BankAmerica Corp. said it would buy a failed thrift in Arizona, Western Savings and Loan Association, Phoenix.

The move left industry observers wondering if Valley is now the only fully functioning vehicle for a possible Arizona entry by Wells Fargo & Co. The San Francisco superregional is the only big Western bank lacking a presence there.

* * *

TUESDAY'S MARKET

Most bank and thrift stocks declined again on Tuesday as the stock market in general remained indecisive about the direction of the economy.

J.P. Morgan & Co., the nation's premier money-center bank, was off 50 cents, to $36.75 in afternoon trading. Chemical Banking Corp., who price was quoted erroneously in Tuesday's column, was unchanged at $23.75.

Manufacturers Hanover Corp. fell $1.375, to $30.75, but analysts said the weakness was apparently not related to any financial developments.

Shares of Student Loan Marketing Corp. fell $4.875 in early trading but recovered some ground after Education Secretary Lauro F. Cavazos said the integrity of the Guaranteed Student Loan Program was not threatened by the financial problems of a large guarantor.

By the middle of the afternoon, Sallie Mae, as the organization is known, was off only $2.375 at $47.50. □

CAPITAL

Capital-Rich Have Pricing Edge, Study Says

By KELLEY HOLLAND

The new risk-based capital rules are accentuating the differences between the haves and the have-nots in banking by allowing well-capitalized institutions to compete aggressively on pricing, according to a survey released by the American Bankers Association.

And those differences are likely to increase, according to Dennis G. Buchert, a sector executive at Marine Midland Bank and chairman of the American Bankers Association's Corporate Banking Executive Committee.

"Over the long term, I think the cost of capital for banks will ultimately be reflected in an industry-wide repricing" of services, Mr. Buchert said. "If banks are going to continue to grow, they are going to have to reprice services at some point."

Subtle Pricing Changes

Even though almost all of the nation's largest banks already have risk-based capital in excess of the levels to be required in 1992, they are making subtle changes in the way they price their services and allocate their capital, the survey showed.

For one thing, banks with capital in excess of minimum levels can afford to price high-quality individual corporate loans more aggressively. This positions them well to develop relationships with borrowers, which will lead to repeat business that is profitable in the aggregate.

But banks with little extra capital need to price every loan so it is profitable, because their marginal cost of capital would be painfully high in today's hostile markets.

"Banks with less capital have to price at the transaction level, so that at the margin they are profitable, whereas banks with excess capital can rely more on relationship profitability," Mr. Buchert said.

Capital Rules Spur Loan Pricing Changes
Percent of banks adjusting loan pricing to adapt to new capital guidelines

	Small banks	Midsize banks	Large banks
Higher rates on all loans	11.8%	38.5%	29.4%
Low rates for low-risk loans and no change on other loans	17.6%	0%	5.9%
High rates for high risk and low rates for low risk	55.9%	38.5%	41.2%

Source: American Bankers Association

Survival of the Fittest

The difference in pricing flexibility between banks with excess capital and those without it is just one more indication of the Darwinian nature of banking today, Mr. Buchert said. Banks from Bank of New England Corp. to Washington Bancorp.have already learned that institutions truly in need of capital must pay top dollar for it – if they can raise it at all.

The ABA study points out that banks with excess capital also have advantages on the lending side of their business. "Those banks that are well ahead of the risk-based capital requirements definitely have the opportunity to turn that into a competitive advantage in terms of pricing services and developing relationships," Mr. Buchert said.

In the study, banks said they would differentiate more between high-quality and low-quality borrowers when pricing loans. On average, 48.4% of banks said they would offer lower rates on low-risk loans and higher rates on high-risk loans. Only 11% said they would lower rates on low-risk loans while leaving rates on high-risk loans unchanged, and just 22% said they would raise rates on all loans.

Turning to Other Methods

Both stock and bond investors are negative on bank securities these days, so banks seeking to boost their capital ratios prefer other methods. Asset securitization is the method of choice, according to the survey. Downsizing the institution came second, followed by slow growth and risk profile restructuring. Selling more stock was the least-favored method.

A total of 377 banks with assets of $1 billion or more were sent questionnaires, and 105 of them responded. Tier 1 and Tier 2 ratios of those banks were not revealed.

* * *

MARKET MONITOR

NCNB Corp.'s $200 million issue of 25-year subordinated bonds was priced on Monday at 166 basis points over comparable Treasuries, with a coupon of 10.2%. The offering, lead-managed by Merrill Lynch Capital Markets and comanaged by Salomon Brothers Inc. and Goldman, Sachs & Co., was all sold on Tuesday. □

FINANCIAL TECHNOLOGY·UPDATE

NCR's Electronic Journal (EJ) automates the audit data collection of ATM operations. EJ eliminates costly journal printers and supplies in favor of floppy disk storage in the existing disk drive.

EJ simplifies replenishment, speeds customer inquiries, and increases storage capacity of audit data for the ATM.

PC utilities allow bank personnel the ability to browse, search, and store diskette data contents. And the diskette is reusable after the transfer of its contents.

NCR's 5223 Passbook/General Purpose Printer is a compact, light-weight device which has been designed to print on passbooks and most non-continuous documents.

It can be used by tellers, either as a dedicated unit or in a multi-user mode. The printer's multi-functional characteristics, its reliability, high speed, and friendly, human interface, make it ideally suited for today's financial and office environments.

The NCR 5367 Financial Workstation is designed to provide an effective price and performance solution for the different functional areas of the branch.

The 5367 Financial Workstation has standard security features like battery back-up for storing totals and protecting sensitive data in the event of a power failure, and it can support multiple peripherals.

Various options enhance the workstation's capability. These options include a high speed NBS/DES Encryptor which protects data files and other sensitive information being transmitted or stored.

The 5367 Financial Workstation can be customized for specific environments and it is based on industry standard components and an open architecture... making sure it can meet the growing needs of financial institutions.

NCR

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